

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 SP-02 USIA-06 AID-05 EB-07
NSC-05 EPG-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01
CIAE-00 COME-00 FRB-03 INR-07 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01
/094 W

-----030909Z 050741 /12

R 030752Z JUN 77

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 745

AMEMBASSY ANKARA

AMEMBASSY ATHENS

AMEMBASSY BELGRADE

AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY HELSINKI

AMEMBASSY LISBON

AMEMBASSY LUXEMBOURG

AMEMBASSY MADRID

AMEMBASSY OSLO

AMEMBASSY OTTAWA

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY ROME

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

AMEMBASSY VIENNA

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USEEC

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USOECD

E.O. 11652: N/A

TAGS: EFIN, SW

SUBJECT: INCREASING SPECULATION ABROAD RE DEVALUATION OF SWEDISH
KRONA PROBABLY WITHOUT FOUNDATION

REF: STOCKHOLM 1545

1. SUMMARY. RECENT LABOR SETTLEMENT, REPORTS OF RISING RATE OF INFLATION, AND VARIOUS GLOOMY REPORTS OF SWEDISH ECONOMIC PROSPECTS HAVE LED TO INCREASING UNREST IN EUROPEAN FOREIGN EXCHANGE MARKETS VIS-A-VIS SWEDISH KRONA, ACCORDING TO PRESS REPORTS SEEN HERE. DESPITE VERY REAL PROBLEMS, WE DO NOT RPT NOT BELIEVE DEVALUATION IS LIKELY IN IMMEDIATE FUTURE, AND THINK IT UNLIKELY IN ANY CASE THAT SUCH ACTION WOULD BE TAKEN BEFORE FALL AT THE EARLIEST. END SUMMARY.

2. SWEDISH PRESS REPORTS RISING CONCERN ABROAD ABOUT VALUE OF SWEDISH KRONA. SWEDISH BANKERS REPORT RAPID INCREASE IN QUERIES FROM CORRESPONDENT BANKS REGARDING KRONA AND PROSPECT FOR DEVALUATION, AND KRONA IS MOVING DOWNWARD VIS-A-VIS OTHER CURRENCIES WITHIN THE EUROPEAN SNAKE. VALUE OF KRONA IS NOW DOWN TO SK 4.39 TO THE DOLLAR (JUNE 1).

3. MOST OF UNREST IS ATTRIBUTED TO RECENT LABOR SETTLEMENT IN WHICH TOTAL PRIVATE SECTOR LABOR COSTS ARE EXPECTED TO RISE BY AROUND 11 PERCENT FOR 1977 AS A WHOLE. RECENT WELL-PUBLICIZED MEETING OF CABINET TO CONSIDER ECONOMIC PROBLEMS ALSO EVIDENTLY ADDED TO UNREST. FINANCIAL TIMES ARTICLE OF MAY 25, WHICH PAINTED A GLOOMY PICTURE FOR SWEDEN'S ECONOMIC PROSPECTS, AND RECENT SPECULATION BROADCAST OVER FRENCH RADIO ARE SAID TO HAVE ADDED TO CONCERN. LIMITED OFFICIAL USE

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STATEMENTS SUCH AS THAT BY PROMINENT ECONOMIST RUDOLPH JALAKAS OF THE SVENSKA HANDELSBANK TO EFFECT THAT KRONA SHOULD BE DEVALUED BY AT LEAST ANOTHER TEN PERCENT ALSO CONTRIBUTE UNCERTAINTY.

4. RECENT INFLATION FIGURES ARE OF REAL CONCERN. CONSUMER PRICE INDEX IN JANUARY THROUGH APRIL PERIOD WAS UP 4.6 PERCENT. SAME PERIOD OF 1976: 4.4 PERCENT. DEVALUATION OF APRIL 1 AND INCREASE IN VALUE ADDED TAX WHICH TOOK EFFECT JUNE 1 EACH WILL ADD ANOTHER ONE PERCENT. IN ADDITION, GENERAL PRICE FREEZE IN EFFECT APRIL 1 EXPIRED ON JUNE 1. RATE OF INFLATION IN CONSUMER PRICE INDEX FOR 1977 THUS LIKELY TO EXCEED 12 PERCENT AND MIGHT EVEN REACH 13 OR MORE COMPARED WITH RATES FOR THREE PRECEDING YEARS OF AROUND TEN PERCENT.

5. DESPITE ABOVE, EMBASSY BELIEVES DEVALUATION UNLIKELY BEFORE FALL AT EARLIEST. AS REPORTED IN REFTTEL,

WE AND MANY OTHER OBSERVERS HOLD OPINION THAT
STRUCTURE OF SWEDISH EXPORTS AND IMPORTS RENDER BENE-
FITS OF DEVALUATION MINIMAL AT BEST. THERE HAS
CERTAINLY BEEN INSUFFICIENT TIME TO JUDGE EFFECTS OF
APRIL 1 DEVALUATION, DESPITE VALID ARGUMENTS OF THOSE
WHO SAY "IF YOU DEVALUE AT ALL, DO SO BY ENOUGH TO
HAVE SOME IMPACT." SWEDISH COMMITMENT TO "SNAKE" RE-
MAINS AS STRONG AS EVER. GOVERNMENT OFFICIALS HAVE
TOLD US PRIVATELY WHAT THEY CONTINUE TO EMPHASIZE
PUBLICLY: THEIR DEPARTURE FROM "SNAKE" WOULD KILL IT
AND ANY REMAINING CHANCES FOR EUROPEAN MONETARY COOPERATION.

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OPIC-03 LAB-04 SIL-01 L-03 H-01 PA-01 PRS-01
/094 W

-----030913Z 050831 /12

R 030752Z JUN 77
FM AMEMBASSY STOCKHOLM
TO SECSTATE WASHDC 746
AMEMBASSY ANKARA
AMEMBASSY ATHENS
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THUS ANY DEVALUATION MUST BE PRECEDED BY NEGOTIATIONS WHICH WILL BE EVEN MORE PAINFUL THAN THOSE PRECEDING APRIL 1. IN ADDITION, SWEDEN'S MOST IMPORTANT TRADING PARTNERS, THE NORDICS, ARE IN POSITIONS SIMILAR TO SWEDEN, I.E., THEY MUST FOLLOW ANY DEPRECIATION OF KRONA. ALSO, LABOR COSTS UNDER THE RECENT SETTLEMENT APPEAR TO HAVE GONE UP NO MORE RAPIDLY THAN THOSE IN SWEDEN'S TRADITIONAL BELL-WEATHER AND PRIME COMPETITOR, THE FRG, AND WILL PROBABLY RISE MORE SLOWLY THAN IN MOST OTHER OECD COUNTRIES. APRIL 1 DEVALUATION OF KRONA WAS STIMULATED BY REPORTS THAT DECEMBER THROUGH FEBRUARY TRADE DEFICIT REACHED SK 2.3 BILLION. DEFICITS IN MARCH AND APRIL WERE ONLY 400 AND 100 MILLION KRONOR RESPECTIVELY AND JANUARY -APRIL DEFICIT WAS SK 1.5 BILLION. COMPARED WITH SK 800 MILLION IN 1976, THIS IS DEFINITELY A GLOOMY PICTURE, BUT NOT SO BLACK AS THE GOVERNMENT THOUGHT IN MARCH.

6. WE SHOULD ALSO MENTION THAT SWEDEN IS IN ADMIRABLE POSITION TO WEATHER ANY WAVE OF SPECULATION WHICH MIGHT DEVELOP AGAINST KRONA. BULK OF \$1 BILLION OFFICIAL FOREIGN BORROWING EARLIER THIS YEAR HAS STILL NOT BEEN DRAWN DOWN. PROCEEDS OF DM250 MILLION OFFERING ON EUROBOND MARKET ALSO NOT YET REALIZED. OFFICIAL GOLD AND FOREIGN EXCHANGE RESERVES WERE SK 13.5 BILLION AS OF MARCH 10.

7. BANKERS ARE ALSO TELLING CORRESPONDENTS (ACCORDING TO SVENSKA DAGBLADET) THAT DEVALUATION IS TOTALLY OUT OF THE QUESTION BEFORE CONCLUSION OF COLLECTIVE BARGAINING NEGOTIATIONS BETWEEN GOVERNMENT AND PUBLIC SECTOR EMPLOYEES. ARTICLE WAS SIGNIFICANT IN THAT DEVALUATION AFTER SETTLEMENT NOT RPT NOT AT ALL RULED OUT. THIS DOES NOT ALTER OUR POSITION THAT DE-

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VALUATION IS UNLIKELY, AND SHOULD IT BECOME A VITALLY
NECESSARY STEP, WOULD NOT TAKE PLACE BEFORE THE FALL.
PERRY

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Message Attributes

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Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
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Disposition Reason:
Disposition Remarks:
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